

**AUDIT OF THE  
BREATHITT COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2007**

**Teddy Michael Prater CPA, PLLC**

HC 62 Box 291  
Salyersville KY 41465  
(606) 349-8042

## **CONTENTS**

## **PAGE**

INDEPENDENT AUDITOR'S REPORT .....	1
BREATHITT COUNTY OFFICIALS .....	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS .....	6
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	9
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	12
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	15
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	18
NOTES TO FINANCIAL STATEMENTS .....	20
BUDGETARY COMPARISON SCHEDULES .....	38
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION .....	42
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	45
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	48
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	51
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	54
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	56
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	59
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	62

### **APPENDIX A:**

**CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

# **TEDDY MICHAEL PRATER CPA, PLLC**

**HC 62 Box 291**

**Salyersville, KY 41465**

**Telephone (606) 349-8042**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Lewis Warrix, Former Breathitt County Judge/Executive

Honorable Harvey J. Richardson, Breathitt County Judge/Executive

Members of the Breathitt County Fiscal Court

## **Independent Auditor's Report**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Breathitt County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Breathitt County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Breathitt County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Breathitt County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

# **BREATHITT COUNTY OFFICIALS**

Fiscal Year Ended June 30, 2007

## **Fiscal Court Members:**

Lewis H. Warrix	Former County Judge/Executive
Harvey J. Richardson	County Judge/Executive
Jeffery Noble	Commissioner
Tim Spencer	Commissioner
Arch Johnson, Jr.	Commissioner

## **Other Elected Officials:**

Brendon D. Miller	County Attorney
James E. Turner	Jailer
Tony Watts	County Clerk
Patsy Williams	Circuit Court Clerk
Ray Clemons	Sheriff
Ervine Allen	Property Valuation Administration
George Griffith	Coroner

## **Appointed Personnel:**

William K. Back	County Treasurer
Orlena Faye Miller	Finance Officer
Brenda Fugate	Deputy County Judge/Executive

**BREATHITT COUNTY  
STATEMENT OF NET ASSETS-MODIFIED BASIS**

**June 30, 2007**

**BREATHITT COUNTY**  
**STATEMENT OF NET ASSETS-MODIFIED CASH BASIS**

June 30, 2007

	<b>Primary Governmental Governmental Activities</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,695,303
Notes Receivables	6,417
Capital Assets Held for Resale	295,575
Total Current Assets	<u>1,997,295</u>
Noncurrent Assets:	
Notes Receivables	89,015
Capital Assets-Net of Accumulated Depreciation	
Land	1,727,786
Construction in Progress	7,794,615
Buildings	5,720,904
Vehicles and Equipment	858,411
Infrastructure Assets-Net of Depreciation	<u>1,093,961</u>
Total Noncurrent Assets	<u>17,284,692</u>
Total Assets	<u>19,281,987</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Bonds Payable	340,000
Financing Obligations Payable	363,191
Total Current Liabilities	<u>703,191</u>
Noncurrent Liabilities:	
Bonds Payable	7,065,000
Financing Obligations Payable	355,222
Total Noncurrent Liabilities	<u>7,420,222</u>
Total Liabilities	<u>8,123,413</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	9,161,279
Restricted For:	
Debt Service	1,290
Unrestricted:	1,996,005
Total Net Assets	<u><u>\$ 11,158,574</u></u>

11,158,574

The accompanying notes are an integral part of the financial statements.

**BREATHITT COUNTY**  
**STATEMENT OF ACTIVITIES-MODIFIED CASH**

**For The Fiscal Year Ended June 30, 2007**

**BREATHITT COUNTY**  
**Statement of Activities - Modified Cash Basis**  
**For The Year Ended June 30, 2007**

<b>Functions/Programs Reporting Entity</b>	<b>Expenses</b>	<b>Program Revenues Received</b>			<b>Net (Expenses) Revenues and Changes in Net Assets</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government</b>
<b>Primary Government:</b>					
Governmental Activities:					
General Government	\$ 2,190,515	\$ -	\$ 997,961	\$ 483,415	\$ (709,139)
Protection to Persons and Property	674,005		133,991		(540,014)
General Health and Sanitation	745,647	62,358	166,335		(516,954)
Social Services	60,374				(60,374)
Recreation and Culture	571,537		643,434		71,897
Roads	1,215,599		2,411,888		1,196,289
Interest on Long-Term and Short-Term Debt Service	311,807				(311,807)
Total Governmental Activities	<u>\$ 5,769,484</u>	<u>\$ 62,358</u>	<u>\$ 4,353,609</u>	<u>\$ 483,415</u>	<u>\$ (870,102)</u>
<b>General Revenues:</b>					
Taxes:					
Real Property Taxes					315,962
Personal Property Taxes					2,814
Motor Vehicle Taxes					76,922
Telephone Taxes (E-911)					144,136
Other Taxes					1,190,766
Excess Fees					79,940
Licenses and Permits					17,461
Miscellaneous Revenues					349,312
Accrued Interest Received					16,818
Gain on Sale of Ambulance Service					95,432
Total General Revenues					<u>2,289,563</u>
Change in Net Assets					1,419,461
Net Assets - Beginning (Restated)					9,739,113
Net Assets - Ending					<u>\$ 11,158,574</u>

The accompanying notes are an integral part of the financial statements.



**BREATHITT COUNTY**  
**BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS**

**June 30, 2007**

**BREATHITT COUNTY**  
**BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS**

June 30, 2007

	General Fund	Road Fund	Local Government Economic Assistance Fund	Breathitt County Public Properties Corporation Bond Fund	Non- Major Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 604,815	\$ 173,571	\$ 402,588	\$ 5,987	\$ 508,342	\$ 1,695,303
Total Assets	<u>604,815</u>	<u>\$ 173,571</u>	<u>\$ 402,588</u>	<u>\$ 5,987</u>	<u>\$ 508,342</u>	<u>\$ 1,695,303</u>
<b>FUND BALANCES</b>						
Reserved for:						
Encumbrances	\$	\$	\$ 15,146	\$	\$	\$ 15,146
Reserved for:						
Capital Projects Fund				5,987		5,987
Debt Service Fund					1,321	1,321
Unreserved:						
General Fund	604,815					604,815
Special Revenue Funds		173,571	387,442		507,021	1,068,034
Total Fund Balance	<u>\$ 604,815</u>	<u>\$ 173,571</u>	<u>\$ 402,588</u>	<u>\$ 5,987</u>	<u>\$ 508,342</u>	<u>\$ 1,695,303</u>

**Reconciliation of the Balance Sheet-Governmental Funds  
to the Statement of Net Assets**

Total Fund Balances	\$ 1,695,303
Amounts reported for Government Activities in the Statement Of Net Assets are difference because:	
Capital Assets Used in Government Activities are not Financial Resources and therefore are not reported in Governmental The funds.	18,985,354
Accumulated Depreciation	(1,789,677)
Receivable Is Not Due and Collectible in the Current Period and, Therefore, Is Not Rreported In The Governmental Funds.	95,432
Capital Assets Held for Resale.	295,575
Short-term and Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(718,413)
Bonded Debt	(7,405,000)
Net Assets Of Governmental Activities	<u>\$ 11,158,574</u>

The accompanying notes are an integral part of the financial statements.

**BREATHITT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIED BASIS**

**For The Year Ended June 30, 2007**

**BREATHITT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Breathitt County Public Properties Corporation Bond Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>						
Taxes	\$1,586,464	\$	\$	\$	\$ 144,136	\$ 1,730,600
Excess Fees	79,940					79,940
Licenses and Permits	17,461					17,461
Intergovernmental	200,380	1,544,086	951,236	806,194	1,335,128	4,837,024
Charges for Services					62,358	62,358
Miscellaneous	188,224	4,456	9,709		146,923	349,312
Interest	4,213	3,914	2,795	3,065	2,831	16,818
Total Revenue	<u>2,076,682</u>	<u>1,552,456</u>	<u>963,740</u>	<u>809,259</u>	<u>1,691,376</u>	<u>7,093,513</u>
<b>EXPENDITURES</b>						
General Government	1,155,881		147,144		60,018	1,363,043
Protection to Persons and Property	70,126		26,499		652,798	749,423
General Health and Sanitation			122,389		652,233	774,622
Social Services	46,704		13,670			60,374
Recreation and Culture			21,537		550,000	571,537
Roads		1,650,881	187,973			1,838,854
Debt Service	30,385	231,147	13,433	570,655	55,574	901,194
Capital Projects				499,393	335,883	835,276
Administration	433,907	208,261	24,067	2,664	72,838	741,737
Total Expenditures	<u>1,737,003</u>	<u>2,090,289</u>	<u>556,712</u>	<u>1,072,712</u>	<u>2,379,344</u>	<u>7,836,060</u>
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>339,679</u>	<u>(537,833)</u>	<u>407,028</u>	<u>(263,453)</u>	<u>(687,968)</u>	<u>(742,547)</u>
<b>Other Financing Sources (Uses)</b>						
Proceeds From Sale of Assets Held For Resale		173,445				173,445
Capital Lease Proceeds		295,575	38,798		41,243	375,616
Transfer From Other Funds		100,000			472,939	572,939
Transfers to Other Funds	(347,000)	(10,469)	(190,000)		(25,470)	(572,939)
Total Other Financing Sources (Uses)	<u>(347,000)</u>	<u>558,551</u>	<u>(151,202)</u>		<u>488,712</u>	<u>549,061</u>
Net Change in Fund Balances	(7,321)	20,718	255,826	(263,453)	(199,256)	(193,486)
Fund Balances-Beginning (Restated)	612,136	152,853	146,762	269,440	707,598	1,888,789
Fund Balances-Ending	<u>\$ 604,815</u>	<u>\$ 173,571</u>	<u>\$ 402,588</u>	<u>\$ 5,987</u>	<u>\$ 508,342</u>	<u>\$ 1,695,303</u>

The accompanying notes are an integral part of the financial statements.

**BREATHITT COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE-  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**For The Year Ended June 30, 2007**

**BREATHITT COUNTY**  
**RECONCILIATION OF THE STATEMENTS OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS**

**For The Fiscal Year Ended June 30, 2007**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ (193,486)
Capital lease proceeds are not reflected in the government-wide financial statement as revenue	(375,616)
Amount reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	1,403,266
Depreciation Expense	(219,103)
Disposal of Asset Held For Resale	(175,994)
Purchase of Assets Held For Resale	295,575
Activities Those Amounts Are Not Recorded Because They Are A Reduction of Corresponding Assets and Liabilities.	
Notes Receivables	95,432
The issuance of short term and long-term debt (e.g. bonds, financing obligations) provides current financial resources to the Governmental Funds, while repayment of principal on long-term debt consumes the financial resources of Governmental Funds. These transactions, however, have no effect on net assets.	
Financing Obligation Principal Payments	259,387
Bond Principal Payments	330,000
Change in Net Assets of Governmental Activities	<u>\$ 1,419,461</u>

The accompanying notes are an integral part of the financial statements

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	21
NOTE 2.	DEPOSITS AND INVESTMENTS .....	27
NOTE 3.	RECEIVABLE .....	27
NOTE 4.	CAPITAL ASSETS .....	28
NOTE 5.	SHORT-TERM DEBT .....	29
NOTE 6.	LONG-TERM DEBT .....	30
NOTE 7.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS .....	34
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM .....	35
NOTE 9.	DEFERRED COMPENSATION .....	35
NOTE 10.	INSURANCE .....	35
NOTE 11.	PRIOR PERIOD ADJUSTMENTS .....	36

**BREATHITT COUNTY FISCAL COURT  
NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transaction, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on the Balance Sheet-Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated property are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of assets are included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Breathitt County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the entity includes a organization that is legally separate from the primary government. Legal separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The county had no discretely presented component units.

**Blended Component Units**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization balances and transactions are reported as though they are part of the county's primary government using the blending method.



**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internal dedicated resources such as taxes and other unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Local Government Economic Assistance Fund** – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (road and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The county is reporting only infrastructure placed in service after July 1, 2003.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	25,000	10-75
Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-5
Infrastructure	20,000	10-50

**G. Long-Term Obligations**

In the government-wide financial statements long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 2. Deposits and Investments**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of August 22, 2006 the County's deposits of \$2,461,884 were exposed to custodial risk as follows:

- Unsecured and uncollateralized – \$1,361,884

**Note 3. Receivable**

On September 8, 2006, the Breathitt County Fiscal Court executed an agreement with Lafferty Enterprises for the sale of the county's ambulance service's Certificate of Need along with an ambulance and equipment. The selling price was \$225,000. Conditions of the sale included \$125,000 payment toward the purchase price simultaneously with the execution of the agreement. (Payment was received on September 8, 2006). The agreement stipulates a five year repayment schedule with an annual interest rate of 6%. The schedule calls for quarterly payments beginning on October 1, 2006 and a lump payment of \$68,315 on October 1, 2012. Future amounts due Breathitt County are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 6,417	\$ 5,583
2009	6,811	5,189
2010	7,228	4,772
2011	7,671	4,329
2012	67,305	1,010
	<u>\$ 95,432</u>	<u>\$ 20,883</u>

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

Page 29

**Note 5. Short-Term Debt**

**A. Trucks**

On May 5, 2007 the county entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of three (3) new Mack trucks. The terms of the lease agreement stipulate a one-year repayment with monthly interest payments beginning July 2007 and a lump sum principal payment in June 2008. The county purchased the trucks to use for one year; then the trucks will be sold at auction. As of June 30, 2007 the principal outstanding was \$295,575. Debt Service requirement for the fiscal year ending June 30, 2008 are as follows:

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u> <u>and Fees</u>
2008	<u>\$ 295,575</u>	<u>\$ 15,952</u>

**B. Changes in Short-term Liabilities**

Short-term activity for the ended June 30, 2007 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 175,994</u>	<u>\$295,575</u>	<u>\$ 175,994</u>	<u>\$ 295,575</u>	<u>\$ 295,575</u>

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Page 31**

**Note 6. Long-Term Debt (Continued)**

**B. General Obligation Refunding Bond, Series 2003**

On July 1, 2003, the County issued \$865,000 in General Obligation Refunding Bonds, Series 2003. The proceeds from these refunding bonds were used to refinance the Breathitt County Public Properties Corporation Series 1994 Road bonds, the Breathitt County Public Properties Corporation Series 1996 Jail bonds, and a 1998 capital lease for a grader. These bonds are scheduled to mature in February 2016; interest payments are due every six months starting in February 2004 and principal payments are due annually beginning in February 2004. At June 30, 2007, the principal balance outstanding on these bonds was \$265,000. Debt service requirements for fiscal years ending June 30, 2008, and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 25,000	\$ 9,938
2009	25,000	8,339
2010	30,000	7,539
2011	30,000	6,579
2012	35,000	5,618
2013-2016	120,000	10,333
Totals	<u>\$ 265,000</u>	<u>\$ 48,346</u>

**C. Grader and Dump Trucks**

On December 4, 2003, the County entered into a lease agreement with Kentucky Association of Counties for the purchase of a grader and three dump trucks. The principal amount of the lease was \$225,000. Terms of the lease agreement stipulate an 8-year repayment schedule with monthly interest payments and annual principal payments. As of June 30, 2007, the principal balance outstanding was \$156,299. Debt service requirements for fiscal years ending June 30, 2008, and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	30,461	6,596
2009	31,989	5,706
2010	33,595	4,072
2011	35,280	2,354
2012	24,974	772
Totals	<u>\$ 156,299</u>	<u>\$ 19,500</u>

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Page 33**

**Note 6. Long-Term Debt (Continued)**

**F. Redesign of the Breathitt County Detention Center**

On January 31, 2005, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the redesign of the Breathitt County Detention Center. The amount of the lease was \$150,000 with repayment commencing on July 20, 2006. The lease was to be repaid over a seven (7) year period with monthly principal and interest payments. As of June 30, 2007, the principal balance outstanding was \$127,580. Debt service requirements for fiscal years ending June 30, 2008, and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	19,536	5,181
2009	21,921	4,960
2010	22,575	3,847
2011	23,249	2,700
2012	23,942	1,523
2013	16,357	343
Totals	<u>\$ 127,580</u>	<u>\$ 18,554</u>

**G. Jail - Suburban**

On December 30, 2006, the county entered into a leasing agreement with Citizens Bank & Trust Company of Jackson for the purchase of a Suburban (Vehicle) to be used by the Jailer. The lease principal amount was \$41,243 with monthly principal and interest payments for a period of four (4) years at a interest rate of 5.90%. Debt service requirements for fiscal years ending June 30, 2008, and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 7,827	\$ 1,981
2009	10,242	1,383
2010	10,871	753
2011	6,638	133
Total	<u>35,578</u>	<u>4,250</u>

**Note 8. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer deferred benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits for plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 13.19 percent. The county's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspect of benefits for non-hazardous employees includes retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 9. Deferred Compensation**

The Breathitt County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public schools and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority annual report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862 or by Telephone at (502) 573-7925.

**Note 10. Insurance**

For the fiscal year ended June 30, 2007, Breathitt County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**BREATHITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**



**BREATHITT COUNTY**  
**BUDGEARY COMPARISON SCHEDULES-MAJOR FUNDS**  
**Required Supplemental Information**  
**Modified Cash Basis**

**For The Year Ended June 30, 2007**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amount, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,344,000	\$ 1,567,787	\$ 1,586,464	18,677
Excess Fees		79,940	79,940	
Licenses and Permits		14,549	17,461	2,912
Intergovernmental Revenues	177,000	205,080	200,380	(4,700)
Miscellaneous	114,000	182,984	188,224	5,240
Interest	3,000	3,637	4,213	576
Total Revenues	1,638,000	2,053,977	2,076,682	22,705
<b>EXPENDITURES</b>				
General Government	1,116,956	1,308,982	1,155,881	153,101
Protection to Persons and Property	69,267	73,558	70,126	3,432
Social Services	29,000	46,731	46,704	27
Roads	1,000	1,000		1,000
Debt Service	29,000	31,500	30,385	1,115
Administration	539,777	904,257	433,907	470,350
Total Expenditures	1,785,000	2,366,028	1,737,003	629,025
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(147,000)	(312,051)	339,679	651,730
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Fund	100,000	100,000		(100,000)
Transfers To Other Funds	(391,223)	(391,223)	(347,000)	44,223
Total Other Financing Sources and (Uses)	(291,223)	(291,223)	(347,000)	(55,777)
Net Changes in Fund Balances	(438,223)	(603,274)	(7,321)	595,953
Fund Balance-Beginning	438,223	612,136	612,136	
Funding Balance-Ending	\$	\$ 8,862	\$ 604,815	\$ 595,953

**BREATHITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS**  
**Required Supplemental Information**  
**Modified Cash Basis**  
**For The Year Ended June 30, 2007 (Continued)**

<b>Local Government Economic Assistance Fund</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental	\$ 350,000	\$ 953,736	\$ 951,236	\$ (2,500)
Miscellaneous	500	12,500	9,709	(2,791)
Interest	2,500	2,500	2,795	295
Total Revenues	353,000	968,736	963,740	(4,996)
<b>EXPENDITURES</b>				
General Government	44,750	153,549	147,144	6,405
Protection to Persons and Property		75,802	26,499	49,303
General Health and Sanitation	32,050	33,838	83,591	(49,753)
Social Services		23,863	13,670	10,193
Recreation and Culture	17,000	29,000	21,537	7,463
Roads	106,000	271,433	187,973	83,460
Debt Service	6,000	21,124	13,433	7,691
Administration	91,775	309,522	24,067	285,455
Total Expenditures	297,575	918,131	517,914	400,217
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	55,425	50,605	445,826	395,221
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(200,425)	(200,425)	(190,000)	10,425
Total Other Financing Sources (Uses)	(200,425)	(200,425)	(190,000)	10,425
Net Changes in Fund Balances	(145,000)	(149,820)	255,826	405,646
Fund Balances Beginning	145,000	146,321	146,762	441
Fund Balances-Ending	\$	\$ (3,499)	\$ 402,588	\$ 406,087

**REATHITT COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2007

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of Funds:**

**Road Fund**

Total Expenditures – Budgetary Basis	\$ 1,794,714
Add: Capital Lease Expenditures	<u>295,575</u>
Total Expenditures – Modified Cash Basis	<u>\$ 2,090,289</u>
Total Other Financing Sources (Uses) – Budgetary Basis	\$ 262,976
Add: Capital Lease Proceeds	<u>295,575</u>
Total Other Financing Sources (Uses) – Modified Cash Basis	<u>\$ 558,551</u>

**Local Government Economic Assistance Fund**

Total Expenditures – Budgetary Basis	\$ 517,914
Add: Capital Lease Expenditures	<u>38,798</u>
Total Expenditures – Modified Cash Basis	<u>\$ 556,712</u>
Total Other Financing Sources (Uses) – Budgetary Basis	\$ (190,000)
Add: Capital Lease Proceeds	<u>38,978</u>
Total Other Financing Sources (Uses) – Modified Cash Basis	<u>\$ (151,202)</u>

**BREATHITT COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2007**

**BREATHITT COUNTY**  
**COMBINING BALANCE SHEET-**  
**NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS**  
**Other Supplementary Information**

June 30, 2007

	<b>Jail Fund</b>	<b>Disaster and Emergency Service Fund</b>	<b>Solid Waste Fund</b>	<b>E-911 Fund</b>	<b>Local Government Economic Assistance Development Fund</b>	<b>Economic Assistance Fund</b>	<b>General Obligation Refunding Bond Series 2003 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>								
Cash	\$ 14,486	\$ 11,986	\$ 149,967	\$ 153,147	\$ 2,015	\$ 175,420	\$ 1,321	\$ 508,342
Total Assets	<u>\$ 14,486</u>	<u>\$ 11,986</u>	<u>\$ 149,967</u>	<u>\$ 153,147</u>	<u>\$ 2,015</u>	<u>\$ 175,420</u>	<u>\$ 1,321</u>	<u>\$ 508,342</u>
<b>FUND BALANCES</b>								
Fund Balances:								
Reserved for:								
Debt Service	\$	\$	\$	\$	\$	\$	\$ 1,321	\$ 1,321
Unreserved:								
Special Revenue Funds	<u>14,486</u>	<u>11,986</u>	<u>149,967</u>	<u>153,147</u>	<u>2,015</u>	<u>175,420</u>		<u>507,021</u>
Total Fund Balance	<u>\$ 14,486</u>	<u>\$ 11,986</u>	<u>\$ 149,967</u>	<u>\$ 153,147</u>	<u>\$ 2,015</u>	<u>\$ 175,420</u>	<u>\$ 1,321</u>	<u>\$ 508,342</u>

The accompanying notes are an integral part of the financial statements.

**BREATHITT COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES-NON-MAJOR GOVERNMENTAL FUNDS-**  
**MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2007**

**BREATHITT COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES-NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS**  
**Other Supplementary Information**

Fiscal Year Ended June 30, 2007

	Jail Fund	Community Development Block Grant Fund	Disaster and Emergency Service Fund	Solid Waste Fund	E-911 Fund	Local Government Economic Assistance Development Fund	Economic Assistance Fund	General Obligation Refunding Bond Series 2003 Fund	Total Non-Major Governmental Funds
<b>REVENUES</b>									
Taxes	\$	\$	\$	\$	\$ 144,136	\$	\$	\$	\$ 144,136
Intergovernmental	125,378	483,415		126,335		600,000			1,335,128
Charges For Services				62,358					62,358
Miscellaneous	15,776			6,147			125,000		146,923
Interest	720			1,214	866			31	2,831
Total Revenue	141,874	483,415		196,054	145,002	600,000	125,000	31	1,691,376
<b>EXPENDITURES</b>									
General Government						60,018			60,018
Protection to Persons and Property	532,091		28,685		92,022				652,798
General Health and Sanitation		483,415		168,818					652,233
Recreation and Culture						550,000			550,000
Debt Service	19,635							35,939	55,574
Capital Projects							335,883		335,883
Administration	42,762			19,964	10,112				72,838
Total Expenditures	594,488	483,415	28,685	188,782	102,134	610,018	335,883	35,939	2,379,344
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	(452,614)		(28,685)	7,272	42,868	(10,018)	(210,883)	(35,908)	(687,968)
<b>OTHER FINANCING SOURCES (US ES)</b>									
Capital Lease Proceeds	41,243								41,243
Transfer From Other Funds	437,000							35,939	472,939
Transfer To Other Funds	(25,470)								(25,470)
Total Other Financing Sources (Uses)	452,773							35,939	488,712
Net Change in Fund Balances	159		(28,685)	7,272	42,868	(10,018)	(210,883)	31	(199,256)
Fund Balances-Beginning	14,327		40,671	142,695	110,279	12,033	386,303	1,290	707,598
Fund Balances-Ending	\$ 14,486	\$	\$ 11,986	\$ 149,967	\$ 153,147	\$ 2,015	\$ 175,420	\$ 1,321	\$ 508,342

**BREATHITT COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTION COSTS**  
**For The Fiscal Year Ended June 30, 2007**



**BREATHITT COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONS COSTS**

**FISCAL YEAR ENDED JUNE 30, 2007**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Breathitt County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the independent auditor's report.
3. No instances of noncompliance material to the financial statements of Breathitt County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of major federal awards programs for Breathitt County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Breathitt County reported in the schedule.
7. The programs tested as major programs were: Community Development Block Grant (14.228) and PRIDE Grant (11.469).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Breathitt County was not determined to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT**

None

**D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None

**BREATHITT COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**BREATHITT COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2007**

<u>Program Title</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	<u>Total By CFDA #</u>	
<b>U. S. Department of Commerce</b>					
<i>Administered through NOAA</i>					
PRIDE Grant (Dump Cleanup)	SG06-02	11.469	\$ 64,500		
PRIDE Grant (Dump Cleanup)	CF06-04	11.469	11,969		
PRIDE Grant (Dump Cleanup)	CF05-05	11.469	38,222		
Total U.S. Dept. of Commerce				\$ 114,691	***
<b>U.S Department of Housing &amp; Urban Development</b>					
<i>Passed Through from Governor's Office For Local Development</i>					
<i>Passed Through to Breathitt Co Water District (Note B)</i>					
Community Development Block Grant	04-068	14.228	483,415	483,415	***
<b>U.S. Department of Homeland Security</b>					
<i>Passed Through KY Dept of Homeland Security:</i>					
State Homeland Security Grant Program - WMD03	M-03254738	97.004	28,685	28,685	
<b>National Park Service</b>					
<i>Passed Through KY Dept of Homeland Security:</i>					
Land & Water Conservation Grant	LWCF-21-1361	23.002	40,000	40,000	
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u>\$ 666,791</u>	

*Tested as major program or cluster \*\*\**

**BREATHITT COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2007**

**NOTE 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal activity of Breathitt County Kentucky and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

**NOTE 2 – Sub recipients**

The Breathitt County Fiscal Court provided Federal awards to sub recipients as follows:

Breathitt County Water District-

	<u>CFDA #</u>	<u>Amount</u>
Community Development Block Grant (KY 52/541 Waterline Project)	14.228	\$ 483,415

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

# **TEDDY MICHAEL PRATER CPA, PLLC**

**HC 62 Box 291**

**Salyersville, KY 41465**

**Telephone (606) 349-8042**

The Honorable Lewis Warrix, Former Breathitt County Judge/Executive  
The Honorable Harvey J. Richardson, Breathitt County Judge/Executive  
Members of the Breathitt County Fiscal Court

## **Report on Internal Control Over Financial Reporting And on Compliance And Other Matters Based on an Audit Of Financial Statements Performed In Accordance With Governmental Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breathitt County, Kentucky as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 14, 2008. Breathitt County's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Breathitt County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Breathitt County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Breathitt County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

# **TEDDY MICHAEL PRATER CPA, PLLC**

**HC 62 Box 291**

**Salyersville, KY 41465**

**Telephone (606) 349-8042**

Honorable Lewis Warrix, Former Breathitt County Judge/Executive  
Honorable Harvey J. Richardson, Breathitt County Judge/Executive  
Members of the Breathitt County Fiscal Court

## **Report on Compliance With Requirements Applicable to Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

### **Compliance**

We have audited the compliance of Breathitt County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Breathitt County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Breathitt County's management. Our responsibility is to express an opinion on Breathitt County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Breathitt County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Breathitt County's compliance with those requirements.

In our opinion, Breathitt County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

### **Internal Control Over Compliance**

The management of Breathitt County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Breathitt County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Breathitt County's internal control over compliance.



**CERTIFICATION OF COMPLIANCE –  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**BREATHITT COUNTY FISCAL COURT**

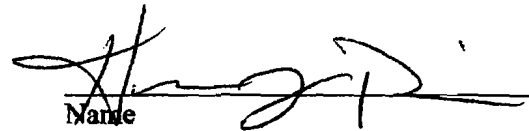
**For The Fiscal Year Ended  
June 30, 2007**

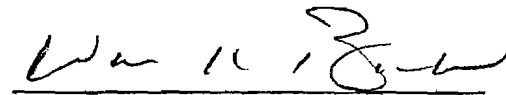
**Appendix A**

**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**BREATHITT COUNTY FISCAL COURT**

**For the Fiscal Year Ended June 30, 2007**

The Breathitt County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
Name  
County Judge Executive

  
Name  
County Treasurer